

**12 February 2019**

**Lead Officers:** Director of Housing Assessment and Solutions and Director of Council Homes, Districts and Regeneration

**Wards:** All

**Agenda Item:**

**Subject:** Housing Revenue Account Rent, Service Charge, Garage Rent and Budget Setting

### **1. DRAFT RECOMMENDATIONS**

The Panel is asked to note the following:

- 1.1 Rent levels for all council properties in 2019/20 to be decreased by 1% against the 2018/19 rate, in line with the Government social rent policy.
- 1.2 The full cost of caretaking, grounds maintenance and bulk refuse collection services will continue to be recovered via service charges applied to tenants that receive the service. The service charges will continue to be charged at 2018/19 rates.
- 1.3 Garage and parking space rents will continue to be charged at 2018/19 rates.
- 1.4 Heating charges will continue to be charged at 2018/19 rates.

### **2. EXECUTIVE SUMMARY**

- 2.1 This report provides information on the proposed rent and other charges made to council tenants and leaseholders for the financial year 2019/20.
- 2.2 The report also provides information on the Housing Revenue Account (HRA) budget for the financial year 2019/20 and the heating charges for council tenants in 2019/20.

### **3. IMPACT OF CURRENT GOVERNMENT LEGISLATION ON THE HOUSING REVENUE ACCOUNT**

- 3.1 The HRA is the main business account for the housing service. It continues to be a ring-fenced account, funded primarily from tenants' rents. The services provided to tenants and leaseholders are paid from this account. This includes responsive repairs, management services and caretaking.
- 3.2 Long-term financial planning is based on the 40 year HRA business plan which is updated annually to reflect changes in legislation and assumptions which underpin

the financial projections. This includes reviewing the impact of the Housing and Planning Act 2016 to understand and model the impact of the 1% rent reductions introduced from 2015/16 for four years, and build a sustainable budget for revenue and capital spend within the HRA. In particular, the announcement about the lifting of the HRA borrowing cap is a key consideration.

- 3.3 The Welfare Reform and Work Bill requires that councils must reduce rents by 1% per annum from 2016/17 to 2019/20. The reduction in rents means that the HRA has needed to make corresponding savings in expenditure, eventually reducing annual spending by a total of £13m over the four-year period in order to maintain a balanced position. The cumulative loss of revenue over the 4 years amounts to £31m (includes cumulative gross rent loss of £23m).
- 3.4 **Disposal of “higher value” properties and their replacement on a two for one basis:** The government confirmed in the ‘A new deal for social housing’ Green Paper that it will not bring the disposal of high value void levy of the Housing and Planning Act 2016 on local authorities into effect.
- 3.5 **Right to Buy:** Croydon Council entered into a retention agreement with the government in April 2012. Under the terms of the agreement, the government sets out that local authorities can only retain the receipts from right to buy (RTB) sales if they spend it within three years of retention to create new stock by match funding the purchase of this new supply on a 70/30 basis.
- 3.6 The implication of this is that the RTB receipts can only fund 30% of new property development or acquisition costs with the remaining balance of 70% funded through the council’s HRA or other resources. Interest is repayable to the government on retained receipts not used within 3 years.
- 3.7 The charity Housing LLP, Croydon Affordable Homes (CAH), uses the retained RTB receipts which the HRA had been unable to use due to the limited resources in the HRA before the government announced the lifting of the borrowing cap, with the Council acting as lender for the balance of the funds for the purchase of the leases and development of the sites. As explained above, if the Council did not use the retained RTB receipts in this manner, it would need to repay the unused receipts to central government with interest.
- 3.8 The current 2019/20 HRA budget and business plan assumes there will be 80 right to buy sales in the year. As well as the loss of an asset to the HRA, this impacts on the level of rents collected year on year and therefore the availability of funds to match the 70:30 requirement.
- 3.9 **Borrowing Cap:** The government announced the lifting of the borrowing cap in October 2018. The removal of the borrowing cap provides an opportunity for the Council to borrow more money for social housing provision in future which it can use flexibly subject to affordability constraints.
- 3.10 Prior to the lifting of the borrowing cap, the introduction of self-financing for the Housing Revenue Account (HRA) in April 2012 was accompanied by a limit on the amount of housing debt that each authority could hold. Croydon’s current HRA debt is £324m with a headroom of £11m. The limitations this generated for the HRA business plan resulted in many authorities (including Croydon) seeking to borrow to support affordable housing outside the HRA. In the 2017 Autumn Budget statement, an additional £1 billion of borrowing was allocated to the Housing Revenue Account

across 'areas of high affordability pressure' of which Croydon Council secured £61m of borrowing.

3.11 The Council is using its wholly owned development company, Brick by Brick (BxB), to bring forward housing led developments and Housing LLPs, and Croydon Affordable Homes (CAH), to increase the provision of social and affordable housing in the borough for the benefit of residents. CAH was set up in July 2017 with the goal of providing rental accommodation which is "genuinely affordable" for people to live in the Borough of Croydon. We are on target to meet the aim of renting out at least 340 local homes costing a maximum 65% of the usual private rent by 2020. The council provides the required funding from its PWLB (Public Works Loan Board) borrowing to these companies.

3.12 Welfare Reform: The introduction of Universal Credit in Croydon has had an impact on rent collection rates. Rates are likely to continue to drop as tenants move from receiving housing benefit to universal credit when they experience a change in circumstances. In 2019/20 there is a further complicating issue in that Universal Credit legislation does not allow for 53 Monday years and therefore claimants would find themselves a week in arrears if charged 53 week's rent. Councils across London have raised this issue with the government and a decision is awaited Croydon Council will campaign strongly to ensure that our tenants are not unfairly penalised by this legislation.

#### **4. HRA REVENUE BUDGET – 2019/20 INCOME**

The main changes proposed to the HRA income budgets for 2019/20 are identified below:

##### **4.1 Rent**

The Welfare Reform and Work Bill requires all registered providers of social housing in England to reduce rents by 1% a year for four years from 2016/17. Rents for existing and new tenants will reflect this 1% per annum reduction. The average social rents in Croydon are as set out below:

**Table 1 – Average Weekly Rents**

<b>Property Type</b>	<b>Average weekly Council rent 2018/19</b>	<b>Average weekly Council rent 2019/20</b>
<b>1 bed</b>	£85	£84
<b>2 bed</b>	£103	£102
<b>3 bed</b>	£125	£124

Where tenants are eligible for receipt of Housing Benefit, the level of benefit will reflect the lower rent.

##### **4.2 Service Charges**

It is proposed that service charges remain at 2018/19 levels in 2019/20, with the intention that a review of the costs of provision and the allocation of those costs across Croydon

properties to be reviewed in relation to the costs of providing these services before any changes are made to 2020/21 charges.

**Table 2 – Tenant Service Charges**

	2018/19	2019/20	Change
<b>Tenant Service Charges</b>			
Caretaking	£10.18pw	£10.18pw	£0.00pw
Grounds Maintenance	£2.09pw	£2.09pw	£0.00pw

### 4.3 Garages and Parking Spaces

Rents for garages and parking spaces were not increased in 2018/19 and it is proposed that no increase will be applied for 2019/20.

**Table 3 – Parking and Garage Charges**

	2018/19	2019/20	Change
<b>Parking Spaces</b>			
Tenants	£7.00pw	£7.00pw	£0.00pw
Non-Tenants	£9.62pw	£9.62pw	£0.00pw
<b>Garages</b>			
Avg. Rent*	£13.13	£13.13	£0.00pw

## 5. HRA REVENUE BUDGET – 2019/20 EXPENDITURE

The main changes proposed to HRA expenditure budgets for 2019/20 are identified below:

### 5.1 Management Savings

In order to balance the HRA budget position in the medium-term (particularly the impact of the 1% rent reductions), the council has identified a range of management savings to ensure that it continues to drive value for money from the services that it provides. A summary of these savings is shown below:

**Table 4 – Management Savings**

Management Savings	£000
Staff Restructure savings	178
Cost Efficiencies	200
Contract procurement and budget review	710
<b>TOTAL</b>	<b>1,088</b>

The management savings identified above include savings made from staff restructuring, cost efficiencies estimated on running costs and contract re-procurement.

### 5.2 Provision for Bad Debts and Voids

### 5.2.1 **Bad Debts**

Bad debt has been included at £0.750m per annum for 2019/20 (no change from 2018/19).

### 5.2.2 **Voids**

The loss of income associated with void properties is assumed will remain at 2018/19 level at 0.9% for 2019/20.

## **6. HRA INVESTMENT PROGRAMME – 2019/20**

6.1 The table below sets out the summary of proposed investment expenditure in 2019/20 compared with 2018/19.

**Table 4 – HRA Investment Programme**

<b>Investment Type</b>	<b>2018/19</b>	<b>2019/20</b>
Planned Maintenance and Improvements	26,771	26,771
Larger Homes	0	1,500
Special Transfer Payments	180	180
Fire Safety	5,000	10,000
Housing and Asset management systems procurement	434	0
<b>Total Capital Expenditure</b>	<b>32,385</b>	<b>38,451</b>
Responsive and Cyclical Repairs	12,392	12,192
<b>Grand Total</b>	<b>44,777</b>	<b>50,643</b>

### **6.2 Repairs and Planned Improvement Programmes**

The proposed major repairs and improvement programme for 2019/20 will remain at £26.7m. It should be noted that there is also a separate programme of responsive and cyclical repairs which are resourced through revenue funding totalling £12.1m, following £200k costs savings identified. Post Grenfell Tower the council increased the level of fire safety risk assessment on all council blocks. Additional £5m expenditure on fire safety works is planned in the 2019/20 capital programme to address issues highlighted in the Fire Risk Assessment, this will bring the total spend to £10m in this year. The costs of this is being funded out of reserves and we continue to lobby central government for the funding.

### **6.3 Housing Supply**

6.3.1 In the past, housing investment has been undertaken using HRA funds and Council borrowing. From 2017 housing new builds are undertaken by Brick by Brick, the Council's independent development company. Brick by Brick is expected to have completed a total of 355 affordable rent units by 2021 and 500 affordable rent units in construction by 2022, which will transfer to the Croydon Affordable Homes LLP. Brick by Brick will have invested around £700m by 2021/22 to deliver more than 2,000 new homes in Croydon. Alongside this housing building programme, we will be continuing to invest in housing improvements.

6.3.2 To enable the increase of the provision of affordable housing in the borough, the Council entered in to three separate limited liability partnerships (LLPs) with a local

housing charity to develop units across the borough and purchase street properties as affordable rented homes. The housing LLPs have utilised the Council's retained right to buy receipts, which it is unable to due to the limited resources in the housing revenue account due to the government imposing a borrowing cap on HRA up until its lifting in October 2018, with the Council acting as lender for the balance of the funds for the purchase of the leases and development of the sites. This has enabled acquisitions of 346 street properties for the provision of affordable rent in the borough without public subsidy.

#### **6.4 Housing Demand**

- 6.4.1 It is considered that for at least the next 10 years that the housing market in London and the South east will be characterised by rising demand and increased barriers to entry caused by rising house prices, rising rents and population growth. Beyond 10 years it is difficult to predict with any certainty what housing policy will be in place or what structural housing market changes may have occurred.
- 6.4.2 The mix of new housing supply continues to be influenced by numbers of applicants on the Council's housing register locally and the forecasts of future housing need.

### **7. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS**

- 7.1 The financial considerations contained in the main body of the report will allow the HRA to set a balanced budget for 2019/20. It also anticipates that the HRA budget will continue to hold a balanced position over the period of the plan based on the assumptions that have been included in the HRA 40 year business plan.
- 7.2 This has been achieved in the face of reduction in available funding as a consequence of 1% rent reductions for four years, with 2019/20 being the final year. As the full implication of wider government legislation becomes known it is likely that further savings and consideration of alternative service delivery models will need to be developed. Tenants and leaseholders will be consulted and invited to comment as these emerge.
- 7.3 **Right to Buy (RTB):** Croydon is currently estimating 80 sales per year, adding additional receipts to the current RTB balance held by the council. The retained RTB receipts are utilised via the purchase and build schemes being undertaken by the Council's development company Brick by Brick and housing charity Croydon Affordable Homes.

#### **7.4 Recent changes and Consultations**

The 'A new deal for social housing' Green Paper consultation outcome is awaited. Recent changes and proposals made in the paper that are impacting on the HRA are set out below.

- The government has announced that from 2020/21 rent increases will apply at CPI+1% (Consumer Price Index) on social housing rented properties.
- The government has proposed making Right to Buy (RTB) receipts to be available for 50% of social rented new build costs rather than 30%.
- The government has proposed extending use of existing RTB receipts to 5 years with new receipts being available for 3 years.

- The government confirmed in the Green Paper that it will not bring the disposal of high value void levy of the Housing and Planning Act 2016 on local authorities into effect.